

# Lynn M. Carlson & Co.

CERTIFIED PUBLIC ACCOUNTANTS

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DIVISION OF  
OIL, GAS & MINING

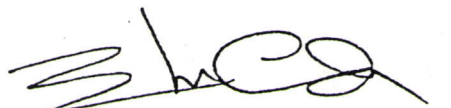
To the Board of Directors  
Utelite Corporation  
Coalville, Utah 84017

We have reviewed the accompanying statement of assets and liabilities--income tax basis of Utelite Corporation (an S corporation) as of December 31, 1988, and the related statements of revenues and expenses--income tax basis, and retained earnings--income tax basis for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the owners of Utelite Corporation.

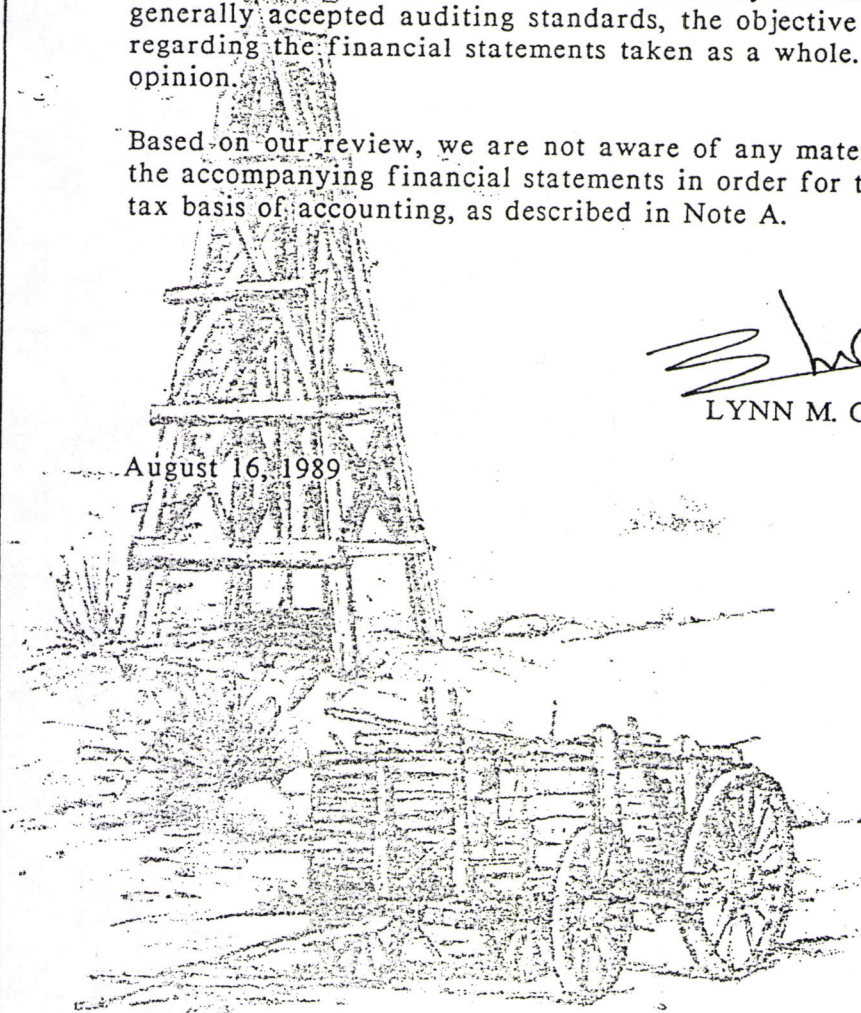
The financial statements have been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note A.

  
LYNN M. CARLSON & CO.

August 16, 1989



**UTELITE CORPORATION****STATEMENT OF ASSETS, LIABILITIES & EQUITY—INCOME TAX BASIS**

December 31, 1988

**ASSETS****CURRENT ASSETS**

|                                      |                  |
|--------------------------------------|------------------|
| Cash                                 | \$ 278,293.05    |
| Trade Accounts Receivable            | 306,792.25       |
| Accounts Receivable-Western Clay Co. | 9,660.54         |
| Employee Accounts Receivable         | 229.93           |
| Material in Process                  | 124,332.51       |
| Notes Receivable--Current            | <u>31,123.12</u> |

TOTAL CURRENT ASSETS 750,431.40

**PROPERTY AND EQUIPMENT**

|                               |                       |
|-------------------------------|-----------------------|
| Land                          | 84,788.48             |
| Buildings                     | 168,503.19            |
| Plant Machinery & Equipment   | 1,845,927.27          |
| Pollution Control Equipment   | 178,357.12            |
| Machinery                     | 520,389.86            |
| Autos, Trucks, Trailers       | 66,953.75             |
| Office Equipment              | 34,863.04             |
| Less Accumulated Depreciation | <u>(2,296,574.75)</u> |
|                               | 603,207.96            |

**OTHER ASSETS**

|                  |                  |
|------------------|------------------|
| Notes Receivable | 49,119.79        |
| Other            | <u>13.59</u>     |
|                  | <u>49,133.38</u> |

\$1,402,772.74  
=====

See accompanying notes and accountant's report.

## LIABILITIES AND STOCKHOLDERS' EQUITY

### CURRENT LIABILITIES

|                                   |               |
|-----------------------------------|---------------|
| Current Portion of Long-Term Debt | \$ 75,000.00  |
| Accounts Payable                  | 1,351.52      |
| Accrued Payroll Taxes Payable     | 1,377.22      |
| Accrued Interest Payable          | <u>335.35</u> |

TOTAL CURRENT LIABILITIES 78,064.09

LONG-TERM DEBT, Net of Current Portion  
Notes Payable

5,000.00  
5,000.00

DEFERRED GAIN ON INVOLUNTARY CONVERSION

288,962.30

### STOCKHOLDERS' EQUITY

|                                |                     |
|--------------------------------|---------------------|
| Common Stock, Par Value \$1.00 | 164,758.00          |
| 500,000 Shares Authorized      |                     |
| 164,758 Shares Issued of which |                     |
| 55,443 are Held in Treasury    |                     |
| Premium on Capital Stock       | 56,366.70           |
| Treasury Stock                 | ( 55,443.00)        |
| Retained Earnings              | <u>865,064.65</u>   |
|                                | <u>1,030,746.35</u> |

\$1,402,772.74  
=====

See accompanying notes and accountant's report.

UTELITE CORPORATION  
STATEMENT OF REVENUE AND EXPENSES—INCOME TAX BASIS  
December 31, 1988

SALES

\$2,370,006.98

COST OF SALES

|                         |                     |
|-------------------------|---------------------|
| Inventory Adjustment    |                     |
| Purchases               | 326,829.69          |
| Direct Labor            | 2,968.08            |
| Plant Power & Utilities | 393,699.66          |
| Kiln Fuel               | 79,672.80           |
| Delivery Expense        | 178,926.81          |
| Supplies                | 595,364.09          |
| Repairs & Maintenance   | 15,972.40           |
| Fuel & Oil              | 143,342.09          |
| Raw Material Royalties  | 26,261.40           |
| Lab & Testing           | 15,562.29           |
| MSHA                    | 3,601.65            |
|                         | <u>327.00</u>       |
|                         | <u>1,782,527.96</u> |

GROSS PROFIT

587,479.02

EXPENSES

|                           |                   |
|---------------------------|-------------------|
| Marketing & Promotion     | 97,308.27         |
| Employee Benefits         | 57,342.31         |
| Payroll Taxes             | 36,621.19         |
| Travel & Sales            | 7,160.95          |
| Insurance                 | 8,637.22          |
| Telephone                 | 7,235.23          |
| Legal & Professional      | 10,927.60         |
| Office Supplies & Postage | 9,805.29          |
| Taxes & Licenses          | 20,188.41         |
| Miscellaneous             | 795.77            |
| Bad Debts                 | 1,055.25          |
| Dues, Subscriptions       | 930.75            |
| Training                  | 446.00            |
| Depreciation              | 223,430.58        |
| Management & Accounting   | 4,631.22          |
| Air Pollution Control     | 6,800.00          |
| ESCSI                     | 7,690.27          |
| Depletion                 | <u>18,119.60</u>  |
|                           | <u>519,125.91</u> |

INCOME FROM OPERATIONS

68,353.11

OTHER INCOME (EXPENSE)

|                               |                      |
|-------------------------------|----------------------|
| Interest Income               | 18,808.39            |
| Gain (Loss) on Sale of Assets | ( 5,591.61)          |
| Interest Expense              | ( <u>15,551.48</u> ) |
|                               | ( <u>2,334.70</u> )  |

NET INCOME

\$ 66,018.41

See accompanying notes and accountant's report.

UTELITE CORPORATION  
 STATEMENT OF RETAINED EARNINGS—INCOME TAX BASIS  
 December 31, 1988

ACCUMULATED ADJUSTMENTS ACCOUNT

|   |                   |
|---|-------------------|
| Balance, January 1, 1988  | \$ 388,038.97     |
| Taxable Income  | 66,018.41         |
| Dividends   | ( 88,501.80)      |
| Transfer to Other Retained Earnings of<br>Amount Attributable to Stock Sold | ( <u>741.47</u> ) |
| Balance, December 31, 1988  | 364,814.11        |

PREVIOUSLY TAXED INCOME

|   |                      |
|---|----------------------|
| Balance, January 1, 1988  | 105,544.38           |
| Dividends in Excess of the<br>Accumulated Adjustments Account               |                      |
| Transfer to Other Retained Earnings of<br>Amount Attributable to Stock Sold | ( <u>83,136.26</u> ) |
| Balance, December 31, 1988  | 22,408.12            |

OTHER RETAINED EARNINGS

|  |                   |
|--|-------------------|
| Balance, January 1, 1988   | 375,845.09        |
| Previously Taxed Income Transferred<br>on Sale of Stock by Shareholder | 83,877.73         |
| Allowance for % Depletion  | <u>18,119.60</u>  |
| Balance, December 31, 1988   | <u>477,842.42</u> |

|  |                        |
|--|------------------------|
| TOTAL RETAINED EARNINGS, DECEMBER 31, 1988 | \$ 865,064.65<br>===== |
|--|------------------------|

See accompanying notes and accountant's report.

# UTELITE CORPORATION

## STATEMENT OF CASH FLOWS—INCOME TAX BASIS

For the Twelve Months Ended December 31, 1988

### CASH FLOWS FROM OPERATING ACTIVITIES

|   |               |
|---|---------------|
| Net Income                                      | \$ 66,018.41  |
| Adjustments to Reconcile Net Income to          |               |
| Net Cash Provided by Operating Activities:      |               |
| Depreciation                                    | 223,430.58    |
| Depletion                                       | 18,119.60     |
| Gain on Sale of Asset                           | ( 2,600.00)   |
| Changes in Assets and Liabilities:              |               |
| Increase in Accounts Receivable                 | ( 112,646.78) |
| Decrease in Inventory                           | 332,349.44    |
| Decrease in Accounts Payable & Accrued Expenses | ( 38,244.28)  |
| Decrease in Interest Payable                    | ( 167.66)     |

NET CASH PROVIDED BY OPERATING ACTIVITIES 486,259.31

### CASH FLOWS FROM INVESTING ACTIVITIES

|  |               |
|--|---------------|
| Principal Received on Sunbeam Coal Purchase Contract | 3,328.34      |
| Principal Received on Loan to Outreach               | 5,976.93      |
| Payments Received on Shareholder Loans               | 5,000.00      |
| Loan to Related Corporation                          | ( 37,720.10)  |
| Advances to Employees                                | ( 229.93)     |
| Land Purchases                                       | ( 18,581.73)  |
| Capital Expenditures                                 | ( 116,309.52) |
| Proceeds from Sale of Assets                         | 10,000.00     |
| Deposit Returned                                     | 245.42        |

NET CASH PROVIDED BY INVESTING ACTIVITIES ( 148,290.59)

### CASH FLOWS FROM FINANCING ACTIVITIES

|   |               |
|---|---------------|
| Proceeds from Bank Loans                    | 95,000.00     |
| Payments Made on Bank Loans                 | ( 75,000.00)  |
| Principal Payment on Land Purchase Contract | ( 5,000.00)   |
| Payments Made on Shareholders' Loans        | ( 162,049.81) |
| Dividends Paid                              | ( 88,501.80)  |

NET CASH PROVIDED BY FINANCING ACTIVITIES ( 235,551.61)

NET INCREASE IN CASH AND CASH EQUIVALENTS 102,417.11

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 175,875.94

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 278,293.05  
=====

See accompanying notes and accountant's report.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Income Tax Basis of Accounting

The Company's policy is to prepare its financial statements on the income tax basis of accounting; consequently, the Company recognizes depletion expense as the greater of cost depletion or statutory depletion. Under generally accepted accounting principles, only cost depletion is acceptable.

The financial statements also include a deferred gain on involuntary conversion as a result of a condemnation of land in May, 1986. The Internal Revenue Code allows the Company three years after the close of the first tax year in which the gain is realized to replace the property. Under generally accepted accounting principles, that gain would have been recognized in 1986.

#### Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

#### Allowance for Doubtful Accounts

No reserve for bad debts has been established by the Company. Historically, uncollectible accounts receivable have not been significant enough to warrant establishing a reserve. Bad debts are written off as it becomes evident that they are uncollectible; any recoveries are included in income when received.

#### Inventories

Inventories are valued at the lower of cost or market under the first-in, first-out (FIFO) method. Cost is determined using the Internal Revenue Code's guidelines with respect to uniform capitalization of inventory.

#### Depreciation

Property, plant and equipment is carried at cost. Depreciation is provided over the estimated useful lives of the related assets using the accelerated cost recovery system and the modified accelerated cost recovery system required by the Internal Revenue Code.

### NOTE B—NOTES PAYABLE

The company has a long-term note payable outstanding in the amount of \$5,000.00 as a result of a land purchase contract. The note requires a principal payment of \$5,000 plus accrued interest on the unpaid principal balance at the rate of eight percent (8%) payable annually. The note will mature July 31, 1990.

#### **NOTE C—RELATED PARTY TRANSACTIONS**

Ute-Systems Inc. is a C corporation owned by the same shareholders as the Company in the same ratio of stock ownership. The Company has a note receivable in the amount of \$37,720.10 from Ute-Systems Inc. Half of the note receivable, \$18,860.05, has been classified as a current asset; the remaining \$18,860.05 is long-term. It is anticipated, however, that this note will be liquidated in 1989.

Western Clay Company is wholly owned by two shareholders representing two-thirds of the stock ownership of the Company. There is currently a accounts receivable balance in the amount of \$9,660.54 from Western Clay Company.

#### **NOTE D—PROFIT SHARING PLAN**

The Company maintains a profit sharing plan for its employees. Contributions to the plan are based on eleven cents (\$.11) per yard of product sold in the quarters that the Company is profitable. Profit sharing contributions expensed as an employee benefit in these financial statements are \$8,028.82.

#### **NOTE E—MAJOR CUSTOMER**

Marley Tile purchases currently comprise approximately 29% of the Company's product sales.

January 8, 1990

TO: Wayne Hedberg

FROM: Steve Schneider *Steve*

RE: Utelite Request

I have considered your request of December 15, 1989, whereby you desired recommendations which would cause the division to be more comfortable with the acceptance of Utelite's unaudited financial statements for self-bonding. My recommendations are as follows:

1. Since accounts receivable represents a significant percent of Utelite's assets, the receipt of an accounts receivable aging report would assist the division in determining the ongoing strength of Utelite. This report would identify whether the receivables are 30 days old, 60 days old, 90 days old, or 120 days old and greater. This report should be received on a periodic basis, perhaps quarterly.
2. The current asset identified as cash *@ 20%* also represents a significant percent of Utelite's assets. The receipt of statement copies which support this balance would increase the confidence placed upon the unaudited financial statement. Receipt of statement copies should also be on a periodic basis. *Quarterly*
3. The third significant category of Utelite's assets is property and equipment, and two options should be considered. Since this type of asset is traditionally recorded at original cost on the accounting records, an independent determination of current market value would identify if these assets have a significant value in today's market. The second option concerning property and equipment would be the application of a lien to secure the amount of bonding required. This option is based on the assumption that Utelite's assets are not already pledged, and thus the division would be first in line.
4. An alternative which banks utilize for small companies which could be considered by the division is the personal guarantee of the corporate officers. Owners often resist this alternative, however it may be the final option available in certain situations. Obviously, the financial positions of the corporate officers would need to be obtained before this could be viable.

Please let me know if you have additional questions.

NONCOAL  
(July 1989)

Mine Utelite Corporation  
Permit No. M/043/004  
Date November 13, 1989  
Checked By \_\_\_\_\_

### SELF BONDING QUALIFICATION SHEET

Applicant required to meet one of the following criteria:

|   |            |
|---|------------|
| 1. Current rating for most recent bond issuance ("A" or higher) (Moody's Investor Service or Standard and Poor's Corporation) | <u>N/A</u> |
|---|------------|

or

|   |                       |
|---|-----------------------|
| 2. A. Tangible Net Worth = (at least \$10 Million)<br>(Net worth minus intangibles [Goodwill and rights to patents or royalties]) | <u>\$1,030,746.35</u> |
| B. Total Liabilities/Net Worth<br>(2.5 times or less) =   | <u>.08</u>            |
| C. Current Assets/Current Liabilities<br>(1.2 times or greater) =   | <u>9.61</u>           |
| Reference: _____  |                       |

or

|  |                       |
|--|-----------------------|
| 3. A. Fixed assets in the United States<br>(at least \$20 million) = | <u>\$2,899,782.71</u> |
| B. Total Liabilities/Net Worth<br>(2.5 times or less) =              | <u>.08</u>            |
| C. Current Assets/Current Liabilities<br>(1.2 times or greater) =    | <u>9.61</u>           |
| Reference: _____   |                       |

|   |             |
|---|-------------|
| Has the operator been in continuous operation of not less than five (5) years (immediately preceding the time of application) (submitted five annual reports)?      |             |
| Yes <u>X</u>  | No _____    |
| Has the operator furnished financial statements prepared by an independent certified public accountant in conformity with generally accepted accounting principles? |             |
| Yes <u>X</u>  | No _____    |
| Has the operator furnished unaudited financial statements for completed quarters in the current fiscal year?  |             |
| Yes _____   | No <u>X</u> |
| Has the operator supplied other useful information for determining financial qualifications?  |             |
| Yes <u>X</u>  | No _____    |